

DEPARTMENT OF STATE REVENUE

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LETTER OF FINDINGS NUMBER: 96-0362 GIT

Income Tax

For The Period: September 30, 1993

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ISSUE(S)

**I. Gross Income Tax – Addback of miscellaneous and bad debt income**

**Authority:** IC 6-2.1-8-10; IC 6-8.1-3-3; IC 6-2.1-1-2; 45 IAC 1-1-26

Taxpayer protests the addback of bad debt income and interest income.

**II. Gross Income Tax – Addback for the sale of fixed assets**

**Authority:** IC 6-2.1-8-10; IC 6-8.1-3-3; IC 6-2.1-1-2

Taxpayer protests the amount added back in the value of fixed assets sold.

STATEMENT OF FACTS

Taxpayer is a Delaware corporation. The company operates approximately 480 subsidiaries and affiliates in North America and 110 operating locations outside North America.

Taxpayer is one of the largest publicly held companies engaged in providing waste services.

**I. Gross Income Tax – Miscellaneous and bad debt income**

DISCUSSION

Taxpayer protests the inclusion of miscellaneous and bad debt recoveries in gross income. In its protest, the taxpayer states that the auditor did not break out bad debts from miscellaneous income. The following is a breakdown of the items included in the assessment.

YEAR	BAD DEBTS	MISC. INC.	INTEREST INC.	ASSESSMENT
9/93	\$45,812	\$31,423	\$25,454	\$145,380

Taxpayer believes that since it has already paid tax on the original sale, they would be taxed twice if it were taxed on the recovery of bad debts. Taxpayer also states that it does not reduce its sales when it deems an account as uncollectible because it uses an allowance method to account for write offs. This causes a debit to accounts receivable and a credit to allowance for bad debt accounts. When a recovery is made, the allowance for bad debts is debited and miscellaneous income is credited. Taxpayer further states that if bad debt recoveries are taxed the transaction is taxed twice, first when the sale is made, and second when the receivable is collected.

The auditor has proposed to adjust for the bad debt as the taxpayer indicates that, in reporting sales on an accrual basis, no deduction from sales is made for bad debts.

Taxpayer protests the inclusion of interest in gross income and believes it should not be subject to tax because it clearly is not a miscellaneous income item.

IC 6-2.1-1-2 (a) clearly states that "gross income" means all the gross receipts a taxpayer receives. 45 IAC 1-1-26 defines interest as any amount of money or other consideration paid to the taxpayer as a charge for the use of the taxpayer's money and that interest is taxable at the higher rate. 45 IAC 1-1-10 defines constructive receipts to include interest.

Taxpayer is denied exemption.

FINDINGS

Taxpayer's protest is sustained on the bad debt income issue and denied on the interest income issue.

**II. Gross Income Tax – Sale of fixed assets**

Taxpayer protests the inclusion of an incorrect value of fixed assets subject to tax. The auditor agrees that in absence of information during the audit, an estimate was utilized to allocate proceeds to Indiana. The supplemental audit incorporates the adjustment.

FINDING

Taxpayer's protest is sustained.

SUMMARY

Taxpayer's protest is partially sustained in issue 1 and sustained in issue 2.